

EARNINGS UPDATE – Q3 FY13



January, 2013

SKS Microfinance Limited

BSE: 533228 • NSE: SKSMICRO

www.sksindia.com

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RECENT UPDATE

RECENT UPDATE – Q3 FY13

- SKS returns to profitability – Reports profit of Rs.1.2 crs for Q3FY13 compared to loss of Rs.262 crs for Q2FY13 and loss of Rs.428 crs for Q3FY12.
- Loan Disbursements rose by 14% (QoQ), and Non-AP Portfolio grows by 9% (QoQ).
- Collection efficiency in Non-AP states continues to be robust at 99.8% (99.2% in Q2FY13)
- Networth of Rs.388 crs and capital adequacy at 38.0%* as of 31st December, 2012.
- The un-availed deferred tax benefit stands at Rs.556 crs and will be available to offset tax on future taxable income. Deferred Tax assets will be recognised on the books upon virtual certainty of future taxable profits supported by convincing evidence as per AS-22. For Q3FY13, the company has posted net profit of Rs. 1.2 crs and given the carried forward tax loss, no current tax provision is required.
- Final hearing for AP MFI writ petition in AP High court was completed on 9th November 2012 and judgment reserved.
- Healthy cash and bank balances of Rs.304 crs.
- Incremental draw-downs of Rs.566 crs in Q3-FY13 (Rs.405 crs for Q2FY13).
- SKS obtains Highest Grading of “MFI 1”. MFI grading is a measure of overall performance of a MFI.

Note::

*Capital adequacy without RBI dispensation on AP provisioning is 25.7%

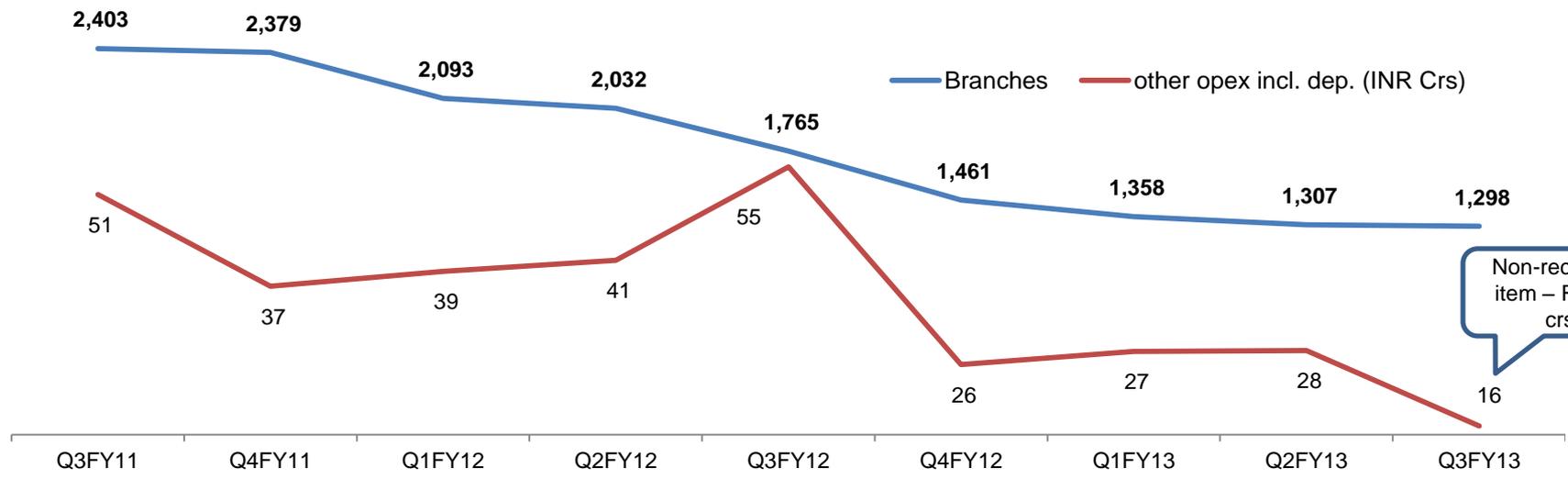
Figures rounded off to nearest digit across the presentation

BUILDING BLOCKS OF SKS TURNAROUND

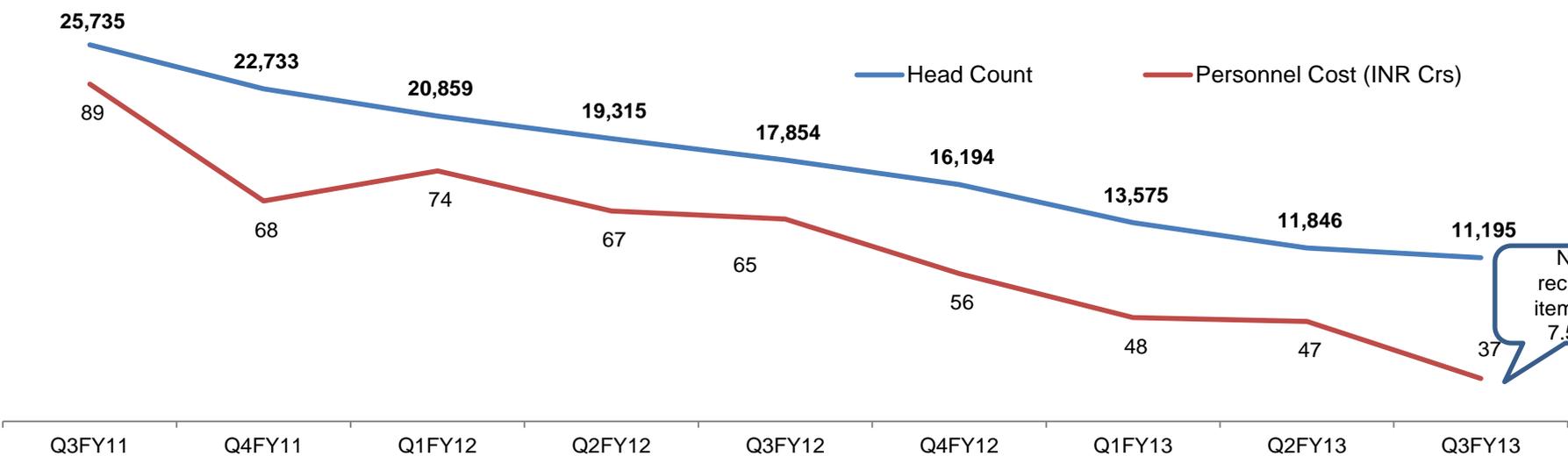
- **Cost structure optimised**
- **Supply side shock managed**
- **Capital raised**
- **Financial cost reduced**
- **Portfolio protected – Non AP**
- **Balance Sheet cleansed – AP portfolio write-off**
- **Credit growth commenced - Non AP**

COST STRUCTURE OPTIMISATION

Branch Consolidation



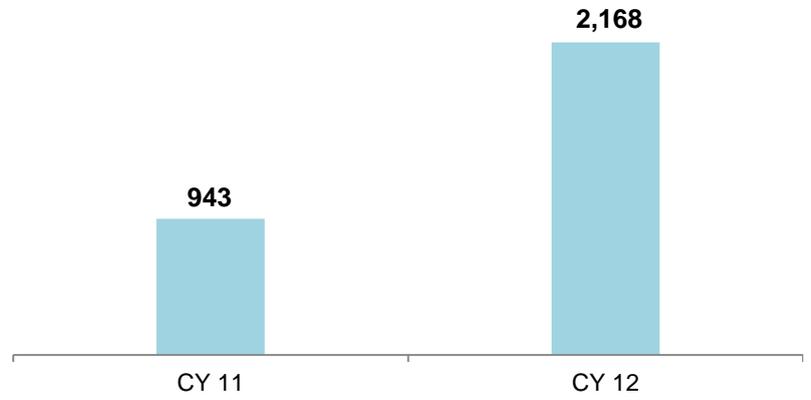
Head-Count Rationalisation



SUPPLY SIDE SHOCK MANAGEMENT

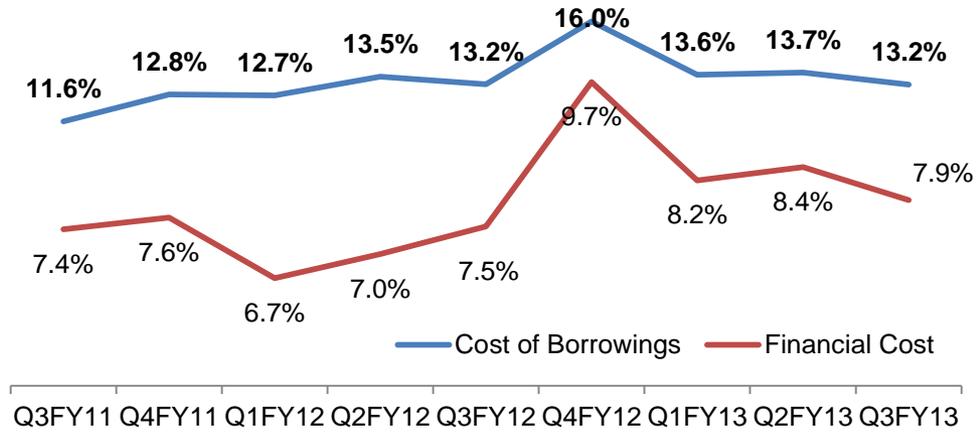
Drawdowns

INR Crs



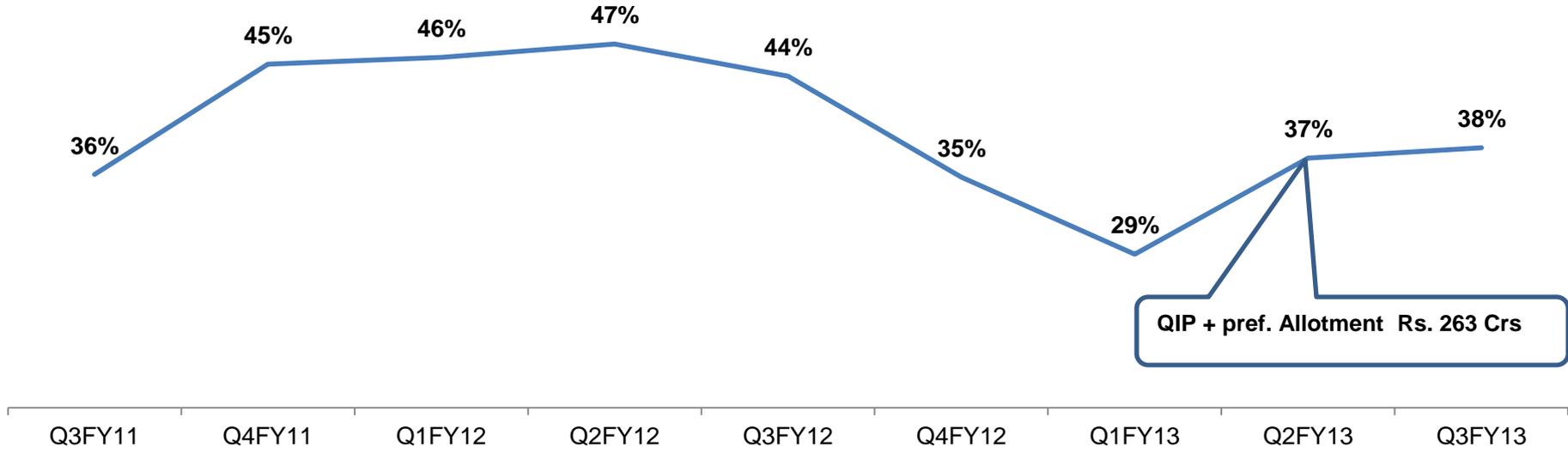
FINANCIAL COST REDUCTION

Cost of borrowings



RECAPITALISATION

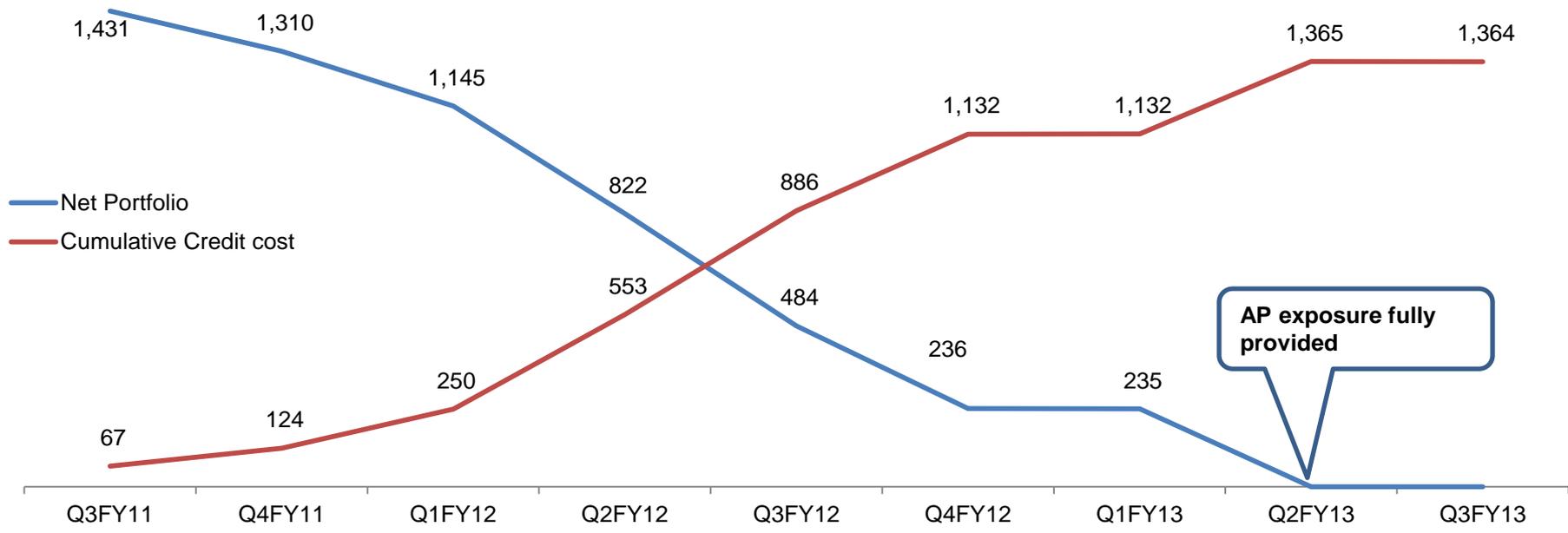
Capital Adequacy %



BALANCE SHEET CLEANSING

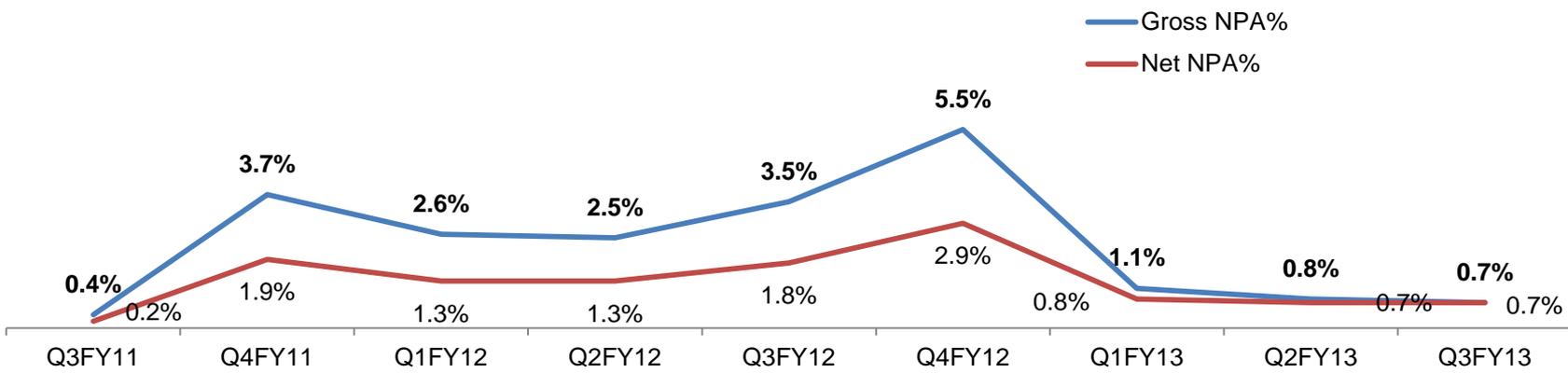
AP Portfolio Write-off

INR crs



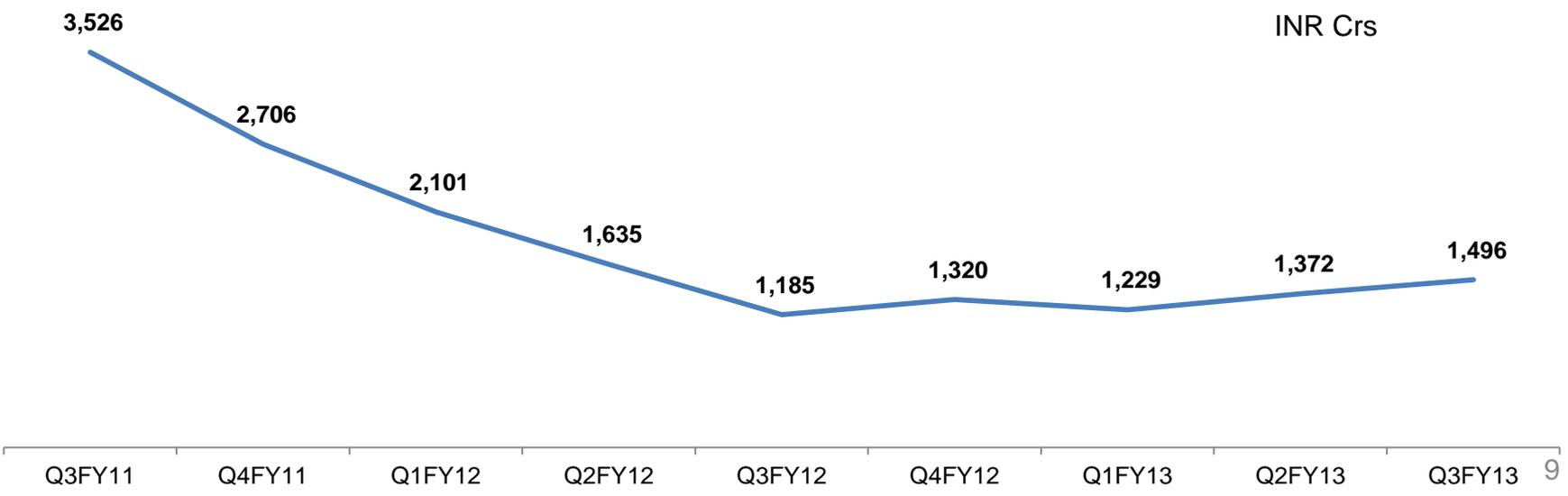
PORTFOLIO PROTECTION

Non-AP NPA %



CREDIT GROWTH

Non-AP Gross Loan Portfolio



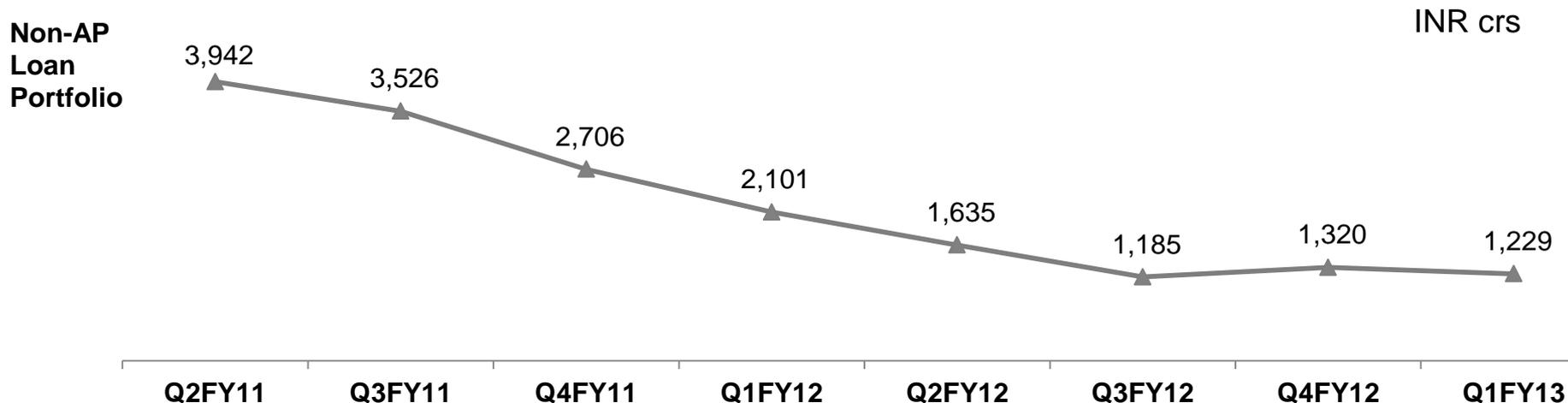
CLARITY ON MAJOR UNCERTAINTIES POST AP MFI CRISIS

WHAT DOESN'T KILL YOU, MAKES YOU STRONGER- POSITIVE DEVELOPMENTS POST THE AP-MFI CRISIS

Concerns	Clarity		
<p>Will there be multiple regulators?</p>	<ul style="list-style-type: none"> ▪ Regulatory clarity – RBI to be the sole regulator 		
<p>Funding uncertainty?</p>	<ul style="list-style-type: none"> ▪ Priority sector status will continue ▪ MFIs to be the only indirect priority sector dispensation 		
<p>Will there be contagion?</p>	<ul style="list-style-type: none"> ▪ No contagion. 99.8% repayment in all other states ▪ More than 2 years, no other state has followed suit 		
<p>Has the business model been challenged?</p>	<ul style="list-style-type: none"> ▪ Collection efficiency maintained despite disbursement being a fraction of collections validates the operating model and dispels the myth of ever-greening ▪ No alternative credit delivery model has gained currency 		
<p>How will the AP situation get resolved?</p>	<table border="0"> <tr> <td data-bbox="608 1078 1149 1163"> <ul style="list-style-type: none"> ▪ Central legislation ▪ Legal relief </td> <td data-bbox="1188 1078 1864 1163"> <ul style="list-style-type: none"> ▪ RBI diplomacy ▪ Customer sentiment </td> </tr> </table>	<ul style="list-style-type: none"> ▪ Central legislation ▪ Legal relief 	<ul style="list-style-type: none"> ▪ RBI diplomacy ▪ Customer sentiment
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<p>What will be the economics under regulated interest rate regime?</p>	<ul style="list-style-type: none"> ▪ RoA of 3-4% on a steady state basis 		

OPERATING MODEL VAILIDITY ESTABLISHED

Collection efficiency of 97% during wind down mode dispels ever greening myth



1.9 million borrowers repaid loans without incremental lending

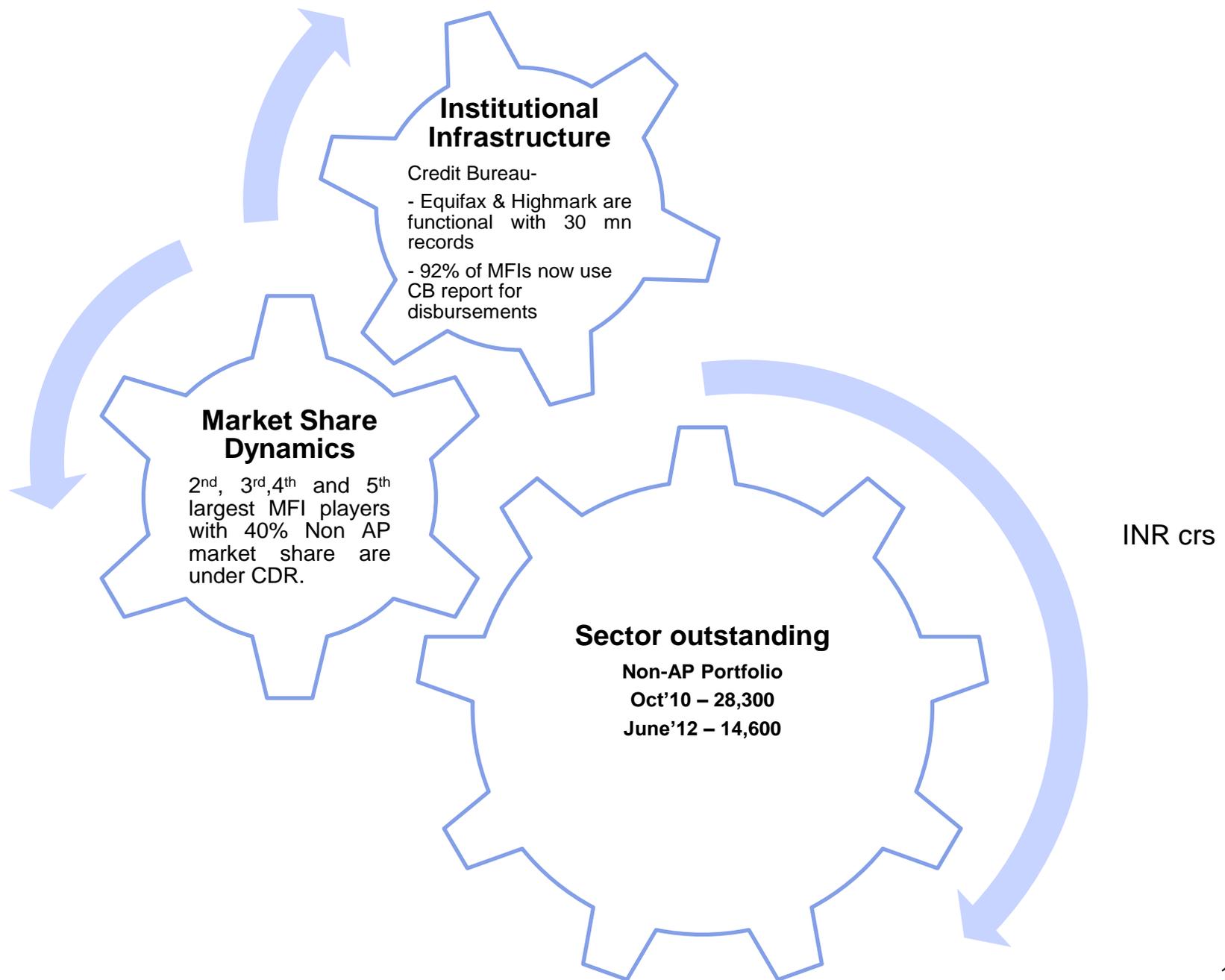
in Millions

No. of Non-AP borrowers who repaid on-time during this period	5.2
No. of Non-AP members who availed loans during this period	3.3
No. of Non-AP members who didn't receive any incremental credit from SKS during this period	1.9

Internal generation and not incremental debt aids prompt repayment

MFI Industry Non- AP Portfolio Outstanding (Rs Cr)	
Oct'10	28,300
June'12	14,600

COMPETITIVE LANDSCAPE CHANGES TO SKS's ADVANTAGE

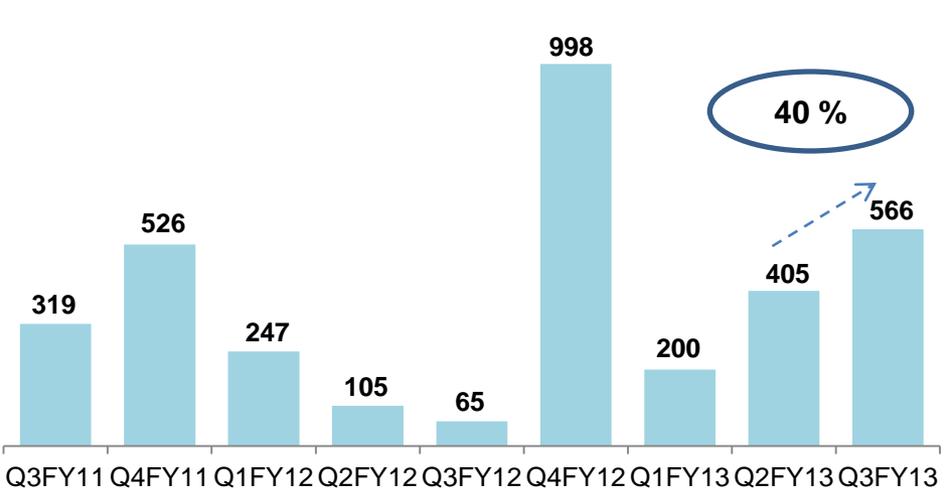


OPERATIONAL HIGHLIGHTS

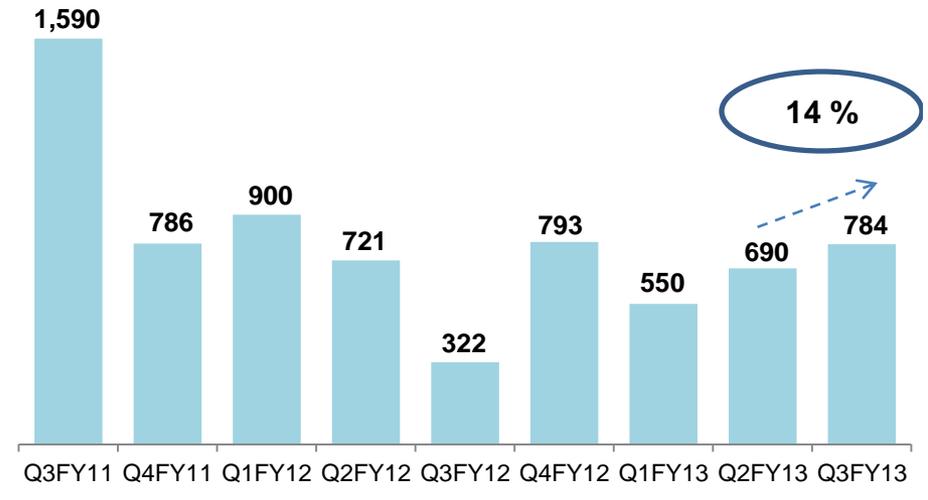
GROWTH MOMENTUM RETURNS

INR Crs

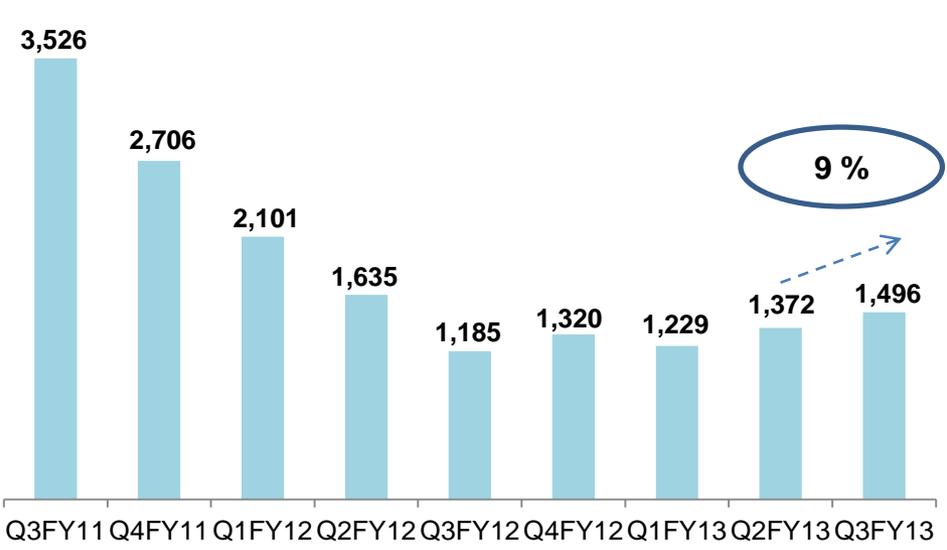
Drawdowns



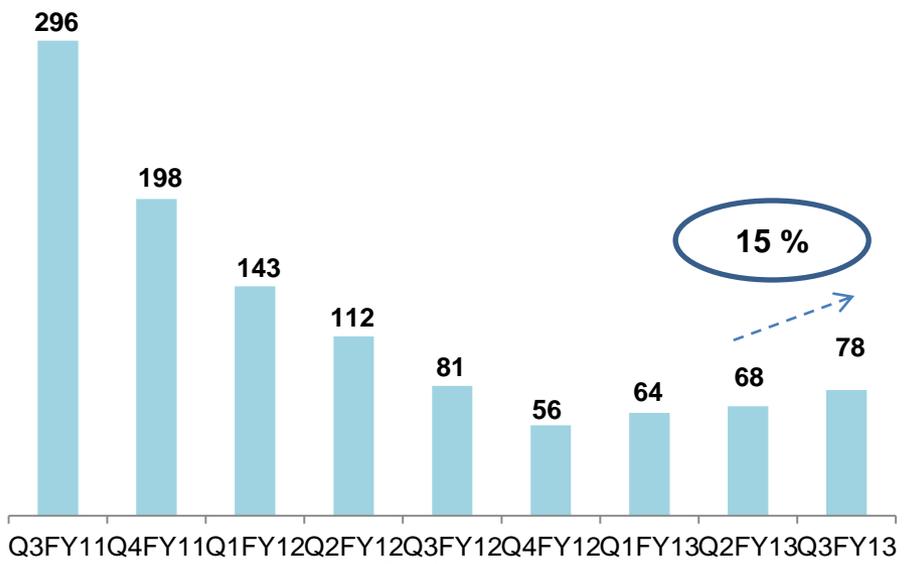
Disbursement



Non-AP Gross Loan Portfolio Outstanding



Non-AP Core Interest Income*



*Includes Interest income on Portfolio loans, Income from Assignment/Securitisation & Loan processing fees

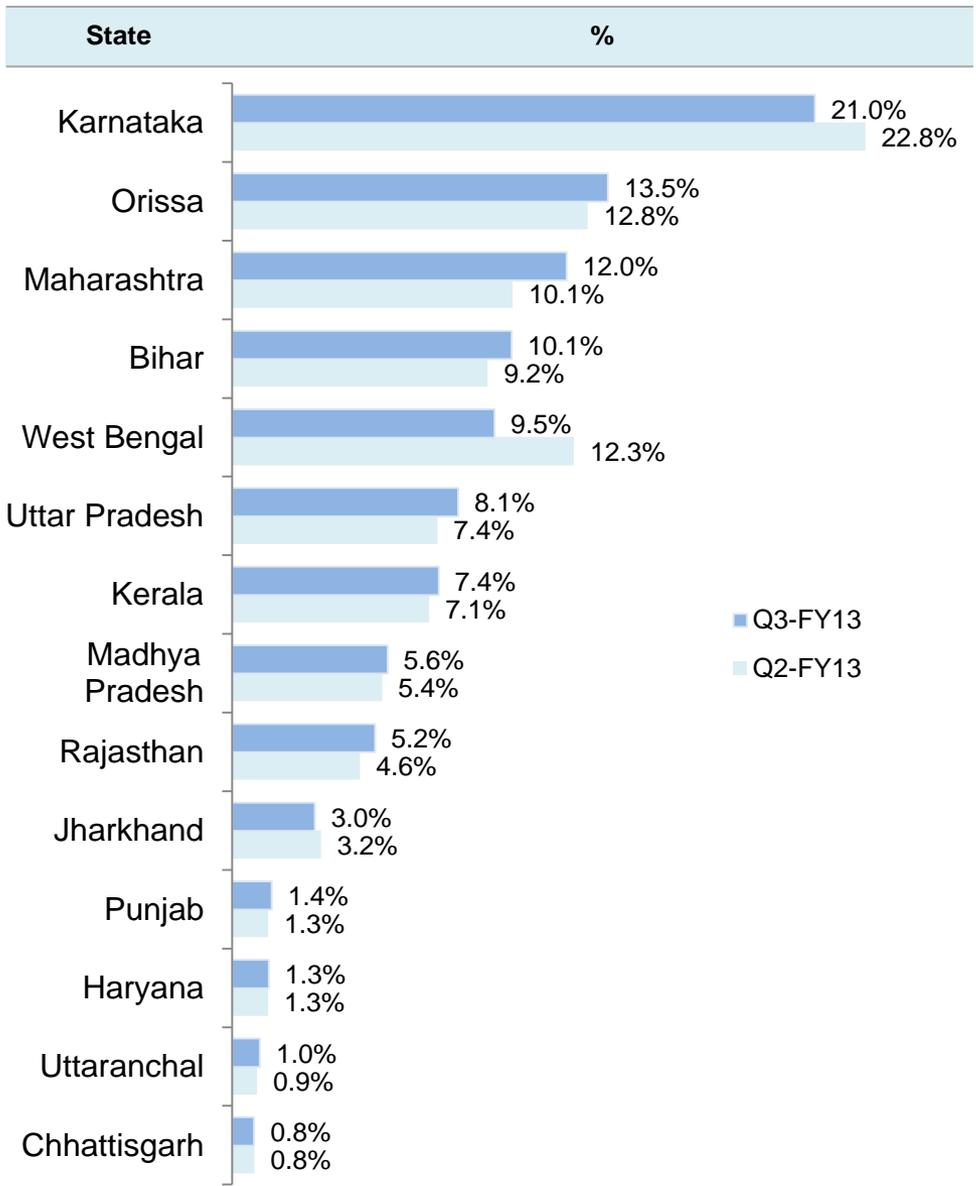
CONSOLIDATED OPERATIONAL HIGHLIGHTS

Particulars	Dec-11	Dec-12	YoY%	Sep-12	QoQ%
Branches#	1,765	1,298	-26%	1,307	-1%
Centers (Sangam)	244,595	210,260	-14%	210,044	0.1%
- Centers in non-AP States (in '000)	173,889	139,681	-20%	139,465	0.2%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	17,854	11,195	-37%	11,846	-5%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	17,510	10,940	-38%	11,577	-6%
– Sangam Managers* (i)	11,485	7,085	-38%	7,524	-6%
– Sangam Managers Trainees(ii)	100	29	-71%	45	-36%
– Branch Management Staff (iii)	3,449	2,358	-32%	2,470	-5%
– Area Managers (iv)	141	98	-30%	102	-4%
– Regional Office Staff (v)	2,335	1,370	-41%	1,436	-5%
• Head Office Staff (vi)	344	255	-26%	269	-5%
Members (in '000)	5,863	4,844	-17%	4,832	0.2%
– Members in non-AP States (in '000)	3,940	2,924	-26%	2,912	0.4%
Active borrowers (in '000)	4,303	4,092	-5%	3,977	3%
– Active borrowers in non-AP States (in '000)	2,575	2,379	-8%	2,262	5%
No. of loans disbursed (in '000)	337	745	121%	617	21%
Disbursements (for the quarter) (INR Crs)	322	784	144%	690	14%
Off-take Avg (Disbursements / No of Loans disbursed)(INR)	9,536	10,525	10%	11,187	-6%
Gross loan portfolio – Non-AP (INR Crs) (A+B)	1,185	1,496	26%	1,372	9%
• Loans outstanding (A)	1,108	1,143	3%	1,060	8%
• Assigned loans (B)	76	352	361%	312	13%
Operational Efficiency – Non-AP :					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	1,318	2,438	85%	2,098	16%
Gross loan portfolio/ Active Borrowers (INR)	4,602	6,288	37%	6,066	4%
Members / No. of Branches	2,699	2,484	-8%	2,456	1%
Members / No. of Sangam managers	438	477	9%	445	7%

*Sangam Managers are our loan officers, who manage our centers (also called as Sangams). #Includes 50 Gold Loan Branches.

NON-AP COLLECTION EFFICIENCY FURTHER IMPROVES TO 99.8%

State wise – Future Receivables Mix



State wise – Collection Efficiency#

State	Q3FY13	Q2FY13	Q1FY13
Karnataka	99.8%	99.8%	99.8%
Orissa	99.8%	99.7%	98.8%
Maharashtra	99.9%	99.9%	99.8%
Bihar	99.8%	99.7%	99.6%
West Bengal	99.3%	95.9%	89.1%
Uttar Pradesh	99.7%	99.7%	99.8%
Kerala	99.9%	99.9%	99.8%
Madhya Pradesh	99.8%	99.7%	99.2%
Rajasthan	99.8%	99.8%	99.7%
Jharkhand	99.8%	99.8%	99.8%
Punjab	99.8%	99.8%	99.8%
Haryana	99.8%	99.8%	99.7%
Uttaranchal	99.9%	99.8%	99.6%
Chhattisgarh	99.9%	99.9%	99.8%
Total non-AP States	99.8%	99.2%	97.6%

Collection wrt. scheduled dues in quarter (i.e. excluding arrear collection & prepayments)₁₇

VINTAGE OF NON – AP BRANCHES CROSSES 4 YEARS PLUS

State	No. of Branches	Wt. Avg. Vintage (in Yrs.)*
Karnataka	206	4.6
West Bengal	181	4.1
Orissa	150	4.7
Maharashtra	133	4.4
Bihar	120	4.6
Uttar Pradesh	118	3.9
Madhya Pradesh	65	5.1
Rajasthan	61	4.4
Jharkhand	38	4.9
Kerala	34	3.8
Chattisgarh	19	5.5
Punjab	18	3.4
Haryana	16	3.7
Gujarat	9	2.1
Uttaranchal	8	4.4
Delhi	1	5.3
Non -AP	1,177	4.4

* As on 31st Dec 2012

SKS EMBRACES NEW GEOGRAPHICAL CONCENTRATION NORMS

Disbursement Related Caps:

Metric	Concentration norms
State	<15% (20% for Karnataka)
District	<3 % (4 % for Karnataka)
Branch	<1 % (1.25 % for Karnataka)
NPA	No disbursement to a branch with NPA > 1 % .
Collection efficiency	No disbursement to a branch with on time collection efficiency of < 95%

Portfolio Outstanding Related Caps:

Geography	Portfolio O/S limit as % of Network	Exceptions
State	50%	75% of Network for Karnataka and Orissa .
District	5%	Only 5% of total operating districts can go up to 10% of Network
Branch	1%	Only 5% of the total operating branches can go up to 2% of Network

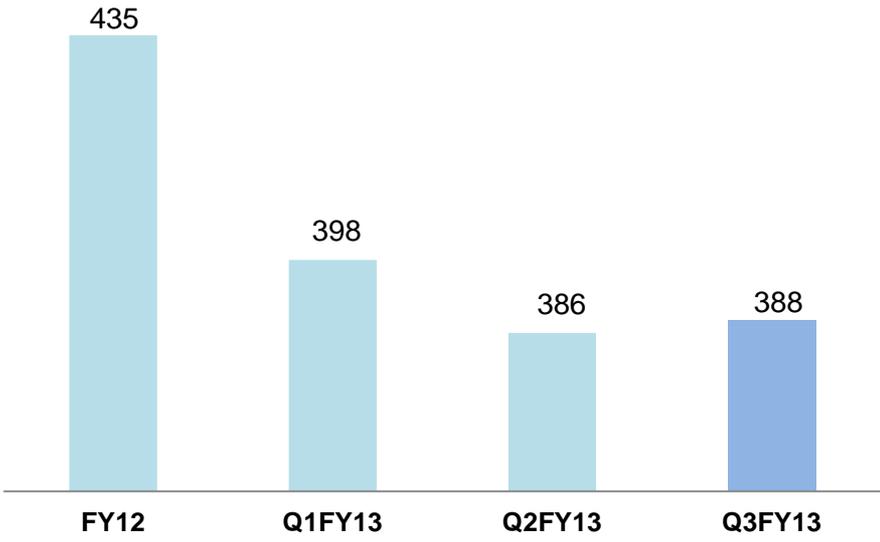
Note - Tolerance limit -10%

REVIEW OF FINANCIALS

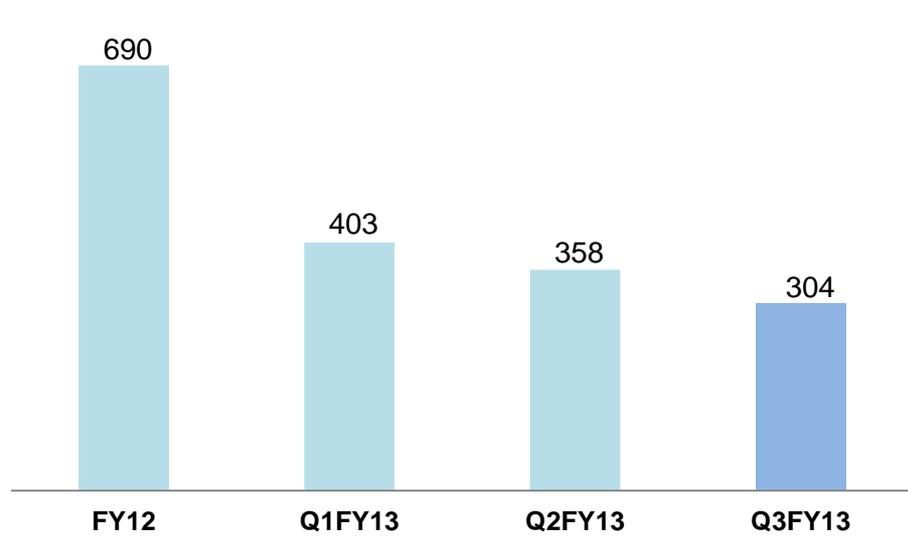
STRONG SOLVENCY AND LIQUIDITY

INR Crs

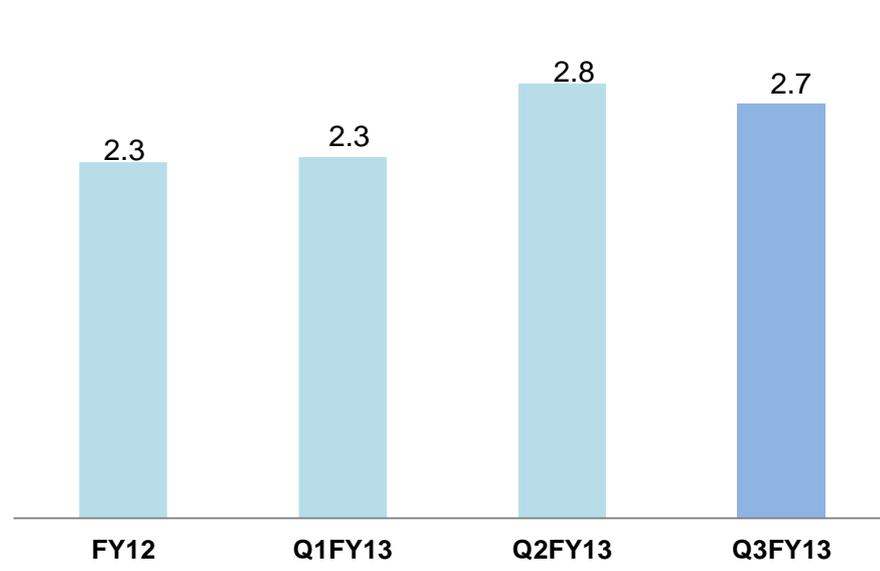
Networth



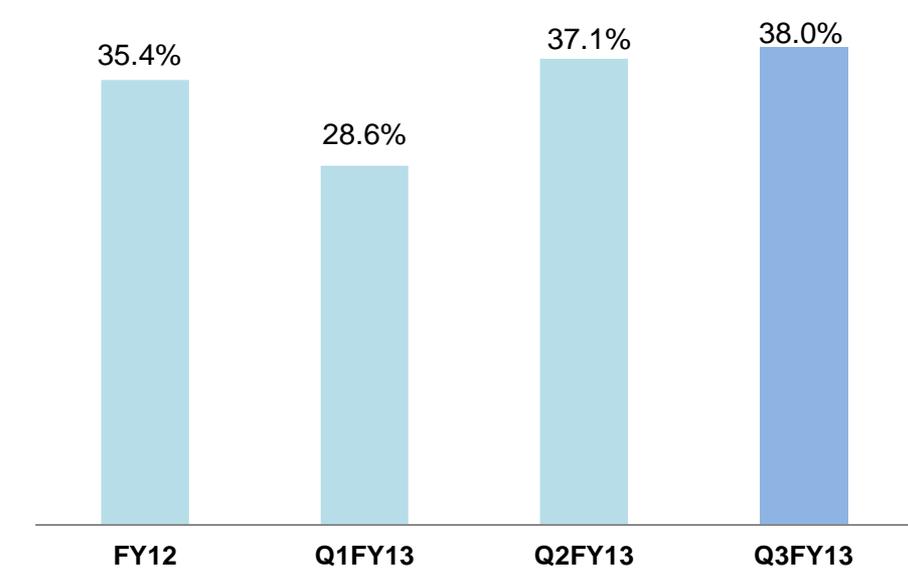
Cash and Bank



Debt/Equity



Capital Adequacy



Note: Q3FY13 – Capital adequacy without RBI dispensation on AP provisioning is 25.7%

SKS RETURNS TO PROFITABILITY

INR Crs

Particulars	Q3 FY12	Q3 FY13	YoY%	Q3 FY13 As % of Total Revenue	Q2 FY13	QoQ%
<u>Income from Operations</u>						
Interest income on Portfolio loans	78 *	60 *	-24%	66%	53*	12%
Income from Assigned loans	1	13	2063%	14%	10	27%
Loan processing fees	3	6	101%	6%	5	17%
<u>Other Income</u>						
Insurance commission	1	-	-100%	-	-	-
Group Insurance admin. charges	1	-	-100%	-	-	-
Income on Investments	5	4	-28%	4%	7	-44%
Recovery against loans written off	4	4	16%	4%	6	-28%
Other Miscellaneous Income	1	4	295%	4%	-	
Total Revenue	93	90	-3%	100%	81	11%
Financial expenses	41	35	-16%	39%	35	1%
Personnel expenses	65	37	-43%	42%	47	-21%
Operating and other expenses	53	15	-72%	16%	26	-43%
Depreciation and amortization	2	1	-39%	2%	2	-18%
Total Operating Cost	120	54	-55%	60%	75	-28%
Provision & Write-offs	359	0.3	-100%	0.31%	234	-100%
Total Expenditure	521	89	-83%	99%	343	-74%
Profit before Tax	(428)	1.2	-100%	1%	(262)	
Tax expense	-	-	-	-	-	-
Profit after Tax	(428)	1.2	-100%	1%	(262)	

* Income on AP portfolio recognised not on accrual basis, but on cash basis

OPERATING COST EFFICIENCY GAINED IN Q3FY13 POST NORMALISATION OF NON-RECURRING ITEMS

INR crs

	Q2FY13	Q3FY13	Q3FY13 Reconstructed post normalization of non-recurring items	QoQ % (Cost reduction without non- recurring items)
Personnel cost	47	37	44.5	-5%
Other opex incl. dep.	28	16	21.7	-23%
Total Operating cost	75	54	66.2	-12%

Non-recurring

Reversal of employee benefits – Rs.4.5 crs
 Reversal of Employee payables – Rs.3 crs
Total – Rs.7.5 crs

Non-recurring

Realisation of retail insurance surrender value including interest – Rs.5.7 crs

PRODUCTIVITY GAINS & COST EFFICEINCY IN Q3FY13 COMPARED TO BEST BEFORE AND WORST DURING THE AP MFI CRISIS

	Best before AP MFI crisis	Worst during AP MFI crisis	Q3FY13
<u>Productivity – Non-AP:</u>			
Borrowers/Sangam Manager	489*	287	388
Gross Loan Portfolio /Sangam Manager ('000)	3,640*	1,320	2,438
Offtake Avg.	10,299*	9,237	10,525
<u>Cost Efficiency:</u>			
Cost of borrowings %	10.3%	16.0%	13.2%
Opex / Gross Loan Portfolio %	10.4%	21.7%	12.1%
Cost to Income Ratio	52.4%	275%	97.4%
<u>Credit Quality - Non-AP:</u>			
Gross NPA%	0.20%*	5.5%	0.7%
Net NPA%	0.16%*	2.9%	0.7%
Collection Efficiency%	99.8%*	94.9%	99.8%
<u>Leverage:</u>			
Debt: Equity	2.8	1.1	2.7
Debt (including off b/s) :Equity	4.3	1.2	3.5
<u>Profitability:</u>			
ROA%	4.9%	-70.4%	0.2%
ROA (including Managed portfolio) %	3.7%	-54.8%	0.2%
ROE%	22%	-220%	1.2%

* Enterprise figures - includes figures from AP state

PROFIT AND LOSS STATEMENT FOR THE NINE MONTHS ENDED

INR Crs.

Particulars	9M FY12	9M FY13	YoY%	9M FY13 As % of Total Revenue
<u>Income from Operations</u>				
Interest income on Portfolio loans	317	155	-51%	62%
Income from Assigned loans	24	40	68%	16%
Loan processing fees	5	16	213%	6%
<u>Other Income</u>				
Insurance commission	3	-	-100%	-
Group Insurance admin. charges	17	-	-100%	-
Income on Investments	14	20	41%	8%
Recovery against loans written off	15	15	-5%	6%
Other Miscellaneous Income	6	5	-19%	2%
Total Revenue	401	251	-37%	100%
Financial expenses	158	103	-35%	41%
Personnel expenses	205	133	-35%	53%
Operating and other expenses	128	66	-48%	26%
Depreciation and amortization	8	5	-33%	2%
Total Operating Cost	341	204	-40%	82%
Provision & Write-offs	896	243	-73%	97%
Total Expenditure	1,395	550	-61%	220%
Profit before Tax	(994)	(300)	-70%	-120%
Tax expense	37	-	-100%	-
Profit after Tax	(1,031)	(300)	-71%	-120%

* Income on AP portfolio recognised not on accrual basis, but on cash basis

EFFICIENT FUNDS UTILISATION RESULTS IN INCREASE IN PRODUCTIVE ASSETS

Particulars	Q3 FY12	Q3 FY13	YoY%	Q2 FY13	QoQ%
Equity share capital	72	108	50%	108	0%
Stock options outstanding	15	21	38%	20	3%
Reserves and surplus	673	259	-62%	258	0%
Capital & Reserves	761	388	-49%	386	0%
Loan funds	1,093	1,039	-5%	1,085	-4%
Payable towards assignment/Securitisation	29	71	146%	65	10%
Expenses & other payables	22	17	-19%	21	-18%
Provision for Taxation	12	19	62%	13	48%
Unammortised loan processing fees	7	11	68%	11	8%
Employee benefits payable	22	8	-64%	12	-36%
Interest accrued but not due on borrowings	8	6	-32%	6	-15%
Provision for leave benefits & gratuity	9	7	-23%	6	7%
Statutory dues payable	2	1	-34%	2	-32%
Provision for standard and non performing asset	83	263	216%	263	0%
Liabilities	1,286	1,442	12%	1,485	-3%
Total Liabilities	2,046	1,830	-11%	1,871	-2%
Fixed assets	18	10	-47%	10	-6%
Intangible assets	5	3	-38%	3	-9%
Investment	0.2	0.2	0%	0	0%
Cash and bank balances	292	304	4%	358	-15%
Sundry debtors	2	0	-72%	0	733%
Overdue Interest on loans	1	1	-31%	1	-16%
Interest accrued but not due on loans	7	9	21%	35	-75%
Interest accrued but not due on deposits with banks	8	5	-36%	7	-33%
Portfolio loans	1,645	1,402	-15%	1,319	6%
Loans placed as collateral	15	67	333%	101	-33%
Security Deposits for Rent and other utilities	7	4	-45%	4	-3%
Advances for Loan cover Insurance	1	1	-10%	2	-46%
Surrender amount receivable from Insurance co.	29	6	-81%	12	-54%
Loans to SKS employee benefit trust	5	5	0%	5	0%
Advance Income Tax	2	6	272%	6	8%
Prepaid Insurance	6	4	-38%	3	16%
Other advances	2	3	15%	3	-4%
Total Assets	2,046	1,830	-11%	1,871	-2%
Assigned Loans	164	438	166%	398	10%

IMPROVED COST TO INCOME AND NEGLIGIBLE CREDIT COSTS HELPS TO BREAKEVEN IN Q3-FY13

Particulars		Q3 FY12	Q2 FY13	Q3 FY13
Spread Analysis (as % of Avg. Gross Loan Portfolio)				
Gross Yield	(I)	16.7%	19.7%	20.3%
Portfolio Yield		14.2%	15.4%	16.3%
Financial Cost	(a)	7.5%	8.4%	7.9%
Operating Cost	(b)	21.7%	18.2%	12.1%
Provision and Write-offs	(c)	64.6%	56.7%	0.1%
Taxes	(d)	-	-	-
Total Expense	II = (a+b+c+d)	93.7%	83.3%	20.0%
Return on Avg. Gross Loan Portfolio	(I) - (II)	-77.0%	-63.7%	0.3%
Efficiency:				
Cost to Income		234.7%	161.6%	97.4%
Asset Quality – Non-AP :				
Gross NPA		3.5%	0.8%	0.7%
Net NPA		1.8%	0.7%	0.7%
Gross NPA (INR crs)		39	8	8
Net NPA (INR crs)		20	7	7
Leverage:				
Debt : Equity (on Balance Sheet)		1.4	2.8	2.7
Capital Adequacy:				
		44.3%	37.1%	38.0%^
Profitability:				
Return on Avg. Assets		-70.0%	-61.6%	0.2%
Return on Avg. Assets (incl. assigned loans)		-65.0%	-47.1%	0.2%
ROE		-176.2%	-267.5%	1.2%
EPS - Diluted (INR) (Not Annualised)		(59.12)	(26.30)	0.11
Book Value (INR)		105.13	35.67	35.83

* Income on AP portfolio recognised not on accrual basis, but on cash basis

^ Capital adequacy without RBI dispensation on AP provisioning is 25.7% for Q3FY13

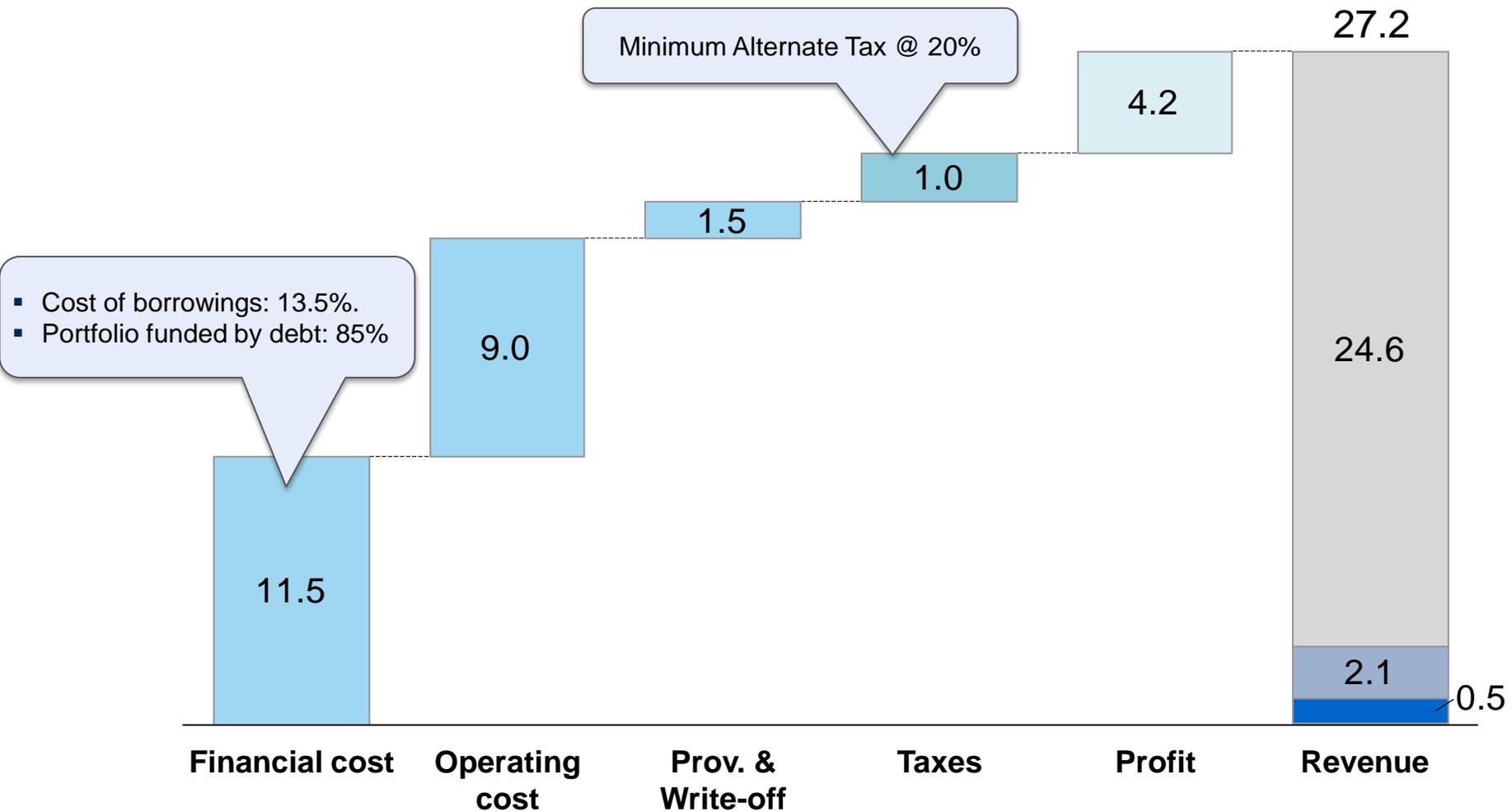
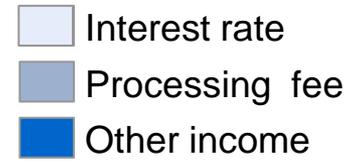
9M-FY13 RATIOS – IMPACTED BY AP WRITE-OFFS IN Q2-FY13

Particulars		9M FY12	9M FY13
Spread Analysis (as % of Avg. Gross Loan Portfolio)			
Gross Yield	(I)	17.8%	19.6%
Portfolio Yield		15.1%	15.3%
Financial Cost	(a)	7.0%	8.1%
Operating Cost	(b)	15.2%	16.0%
Provision and Write-offs	(c)	39.8%	19.1%
Taxes	(d)	1.6%	-
Total Expense	II = (a+b+c+d)	63.6%	43.2%
Return on Avg. Gross Loan Portfolio	(I) - (II)	-45.8%	-23.5%
Efficiency:			
Cost to Income		140.6%	138.1%
Leverage:			
Debt : Equity (on Balance Sheet)		1.4	2.7
Capital Adequacy:			
		44.3%	38.0%^
Profitability:			
Return on Avg. Assets		-42.7%	-23.1%
Return on Avg. Assets (incl. assigned loans)		-38.5%	-17.2%
ROE		-104.0%	-99.5%
EPS - Diluted (INR)		(142.52)	(32.01)
Book Value (INR)		105.13	35.83

* Income on AP portfolio recognised not on accrual basis, but on cash basis

^ Capital adequacy without RBI dispensation on AP provisioning is 25.7% for Q3FY13

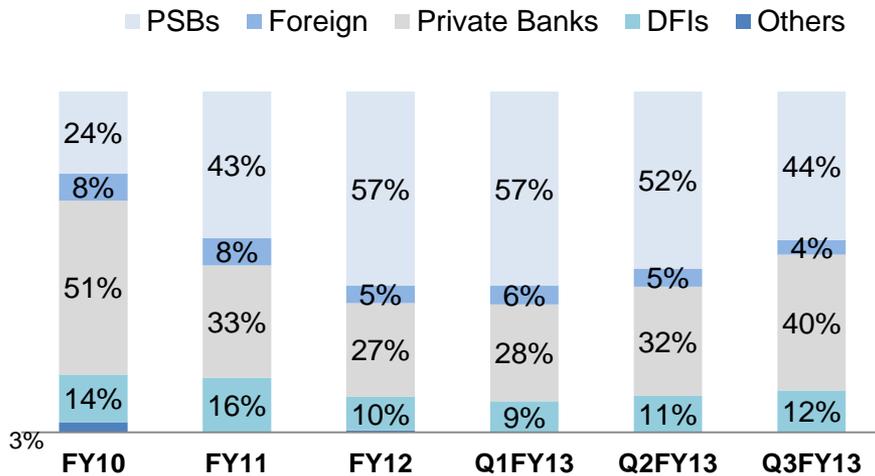
STEADY STATE ROA OF 4% CAN BE TARGETED UNDER REGULATED INTEREST RATE REGIME



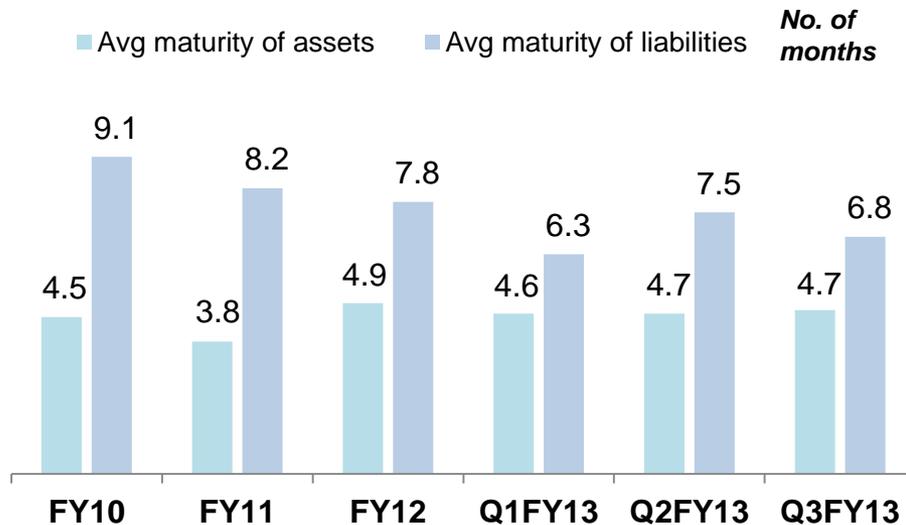
FINANCIAL ARCHITECTURE

FINANCIAL ARCHITECTURE (1/2)

Stable Funding Partners



Positive ALM Mismatch



Derisked Funding Mix

Banks	Dec 31, 2012
IDBI Bank	19%
Yes Bank	13%
SIDBI	9%
Indusind Bank	9%
State Bank Group	8%
Axis Bank	7%
Dena Bank	7%
ICICI Bank	6%
Citi Bank FMO	4%
Development Credit Bank	3%
Reliance Capital	3%
Central Bank of India	3%
Andhra Bank	2%
Corporation Bank	2%
Indian Overseas Bank	2%
J&K Bank	2%

Total amount outstanding as of Dec'12: Rs 1,343 crs.
Concentration risk on rest of the 3 banks is below 1%.

FINANCIAL ARCHITECTURE (2/2)

Funding Cost Analysis

Metric	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Cost of interest bearing liabilities (excluding loan processing fee paid upfront)	13.2%	12.9%	12.4%	12.0%	12.4%
Cost of interest bearing liabilities (including loan processing fee paid upfront)	13.2%	16.0%	13.6%	13.7%	13.2%
Financial Cost^	7.6%	9.7%	8.2%	8.4%	7.9%

^ Financial expenses to Avg. Gross Loan Portfolio

Rs. 998 crs drawdown

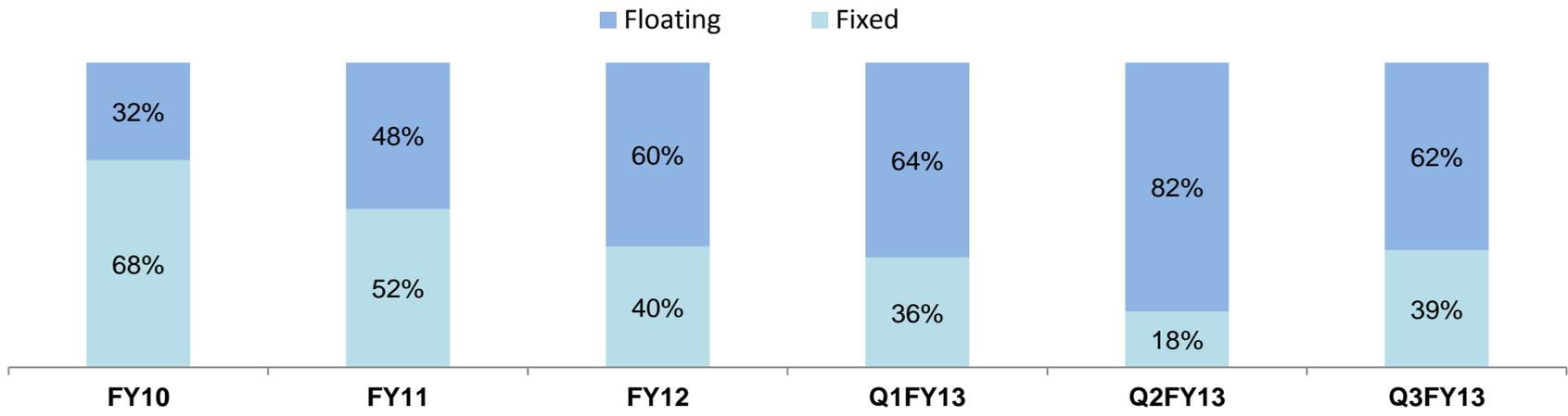
Rs. 200 crs drawdown

Rs. 405 crs drawdown

Rs. 566 crs drawdown

Note: SKS expenses loan processing fees paid upfront . Whereas loan processing fees received from borrowers are amortized over the period of contract.

Interest Rate Risk Analysis

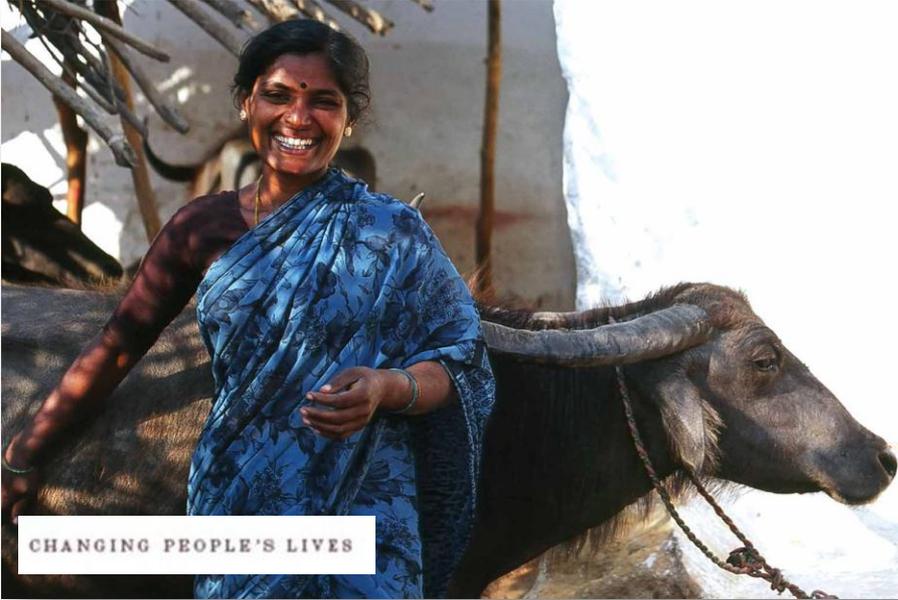


ANNEXURE

OUR PROVISIONING POLICY FOR MICROFINANCE LOANS

		<u>RBI norms</u>	<u>SKS compliance</u>
Asset Classification	Standard Assets	Up to 180 days	0- 60 days
	Sub-Standard Assets	180-720 days	60-180 days
	Loss Assets	> 720 days	> 180 days

Provisioning Norms	Standard Assets	0.25%	0.25-1%
	Sub-Standard Assets	10%	50%
	Loss Assets	100% provision / Write off	100%



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